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United States General Accounting Office
Washington, DC 20548

April 5, 2002

The Honorable Donald H. Rumsfeld
The Secretary of Defense

Subject: Defense Management: Need to Fully Recognize Ammunition
Demilitarization Liability

Dear Mr. Secretary:

In April 2001, we reported¹ that the demilitarization liability associated with excess ammunition was not reflected in the Department of Defense's (DOD) financial statements, even though federal financial accounting standards² require recognition and reporting of liabilities associated with disposal. We recommended that DOD include the total liability associated with demilitarizing excess ammunition in its annual financial statements. In response, the Army, as the single manager for conventional ammunition, calculated an estimated demilitarization liability of approximately \$1.2 billion and prepared a voucher recognizing this amount in its accounting records on February 25, 2002. An Army official told us it would use this accounting entry as a basis for including this amount in both the Army's and DOD's fiscal year 2002 annual consolidated balance sheets. This estimate was based on the Army Operations Support Command's demilitarization stockpile plus the forecast of expected additions to the stockpile for the next 5 years.

While the Army's actions are consistent with our recommendation, these actions do not reflect the full extent of future costs in this area necessary to fully comply with our recommendation. Specifically, the Army's actions do not recognize a liability for the costs associated with the demilitarization of (1) excess ammunition overseas (even though a portion of the demilitarization budget each year is used to demilitarize ammunition overseas) or (2) excess Army-owned war reserve ammunition, excess retail ammunition, and excess ammunition not stored at an Army installation. Our analysis of inventory records showed that the Army has an additional 94,030 tons of ammunition located overseas and 54,770 tons of unusable or unneeded ammunition at military storage sites in the United States that was not considered in determining the Army's estimate of the demilitarization liability to be included in both the Army's and DOD's fiscal year 2002 financial statements. Based on our analysis, we believe that the total demilitarization liability that should be reflected in the Army's and

¹ U.S. General Accounting Office, *Defense Inventory: Steps the Army Can Take to Improve the Management and Oversight of Excess Ammunition*, GAO-01-372 (Washington, D.C.: Apr. 12, 2001).

² Statements of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, and No. 6, *Accounting for Property, Plant, and Equipment*.

DOD's fiscal year 2002 financial statements could amount to about \$3 billion, or \$1.8 billion more than the Army's calculation.

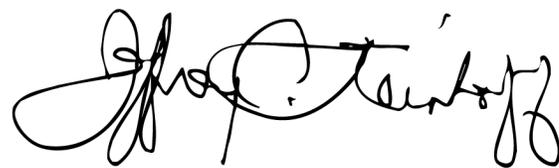
If the liability associated with all excess ammunition is not accurately reflected in the Army's and DOD's financial statements and data regarding it made available for congressional budget deliberations, then DOD and Congress cannot prepare for the present and future costs associated with demilitarizing excess ammunition.

Therefore, consistent with our previous recommendation, the Army needs to submit an additional voucher and include in both its and DOD's fiscal year 2002 consolidated balance sheets the future liability associated with the demilitarization of excess Army ammunition at overseas and military storage locations. With this additional recognition and reporting the Army's and DOD's financial statements will more accurately reflect the total liability associated with demilitarizing excess ammunition.

We are sending copies of this letter to the appropriate congressional committees and the director, Office of Management and Budget. The letter is also available on GAO's homepage at <http://www.gao.gov>. If you or your staff have any questions on the matters discussed in this letter, please contact either of us at (202) 512-4300 or (202) 512-2600, respectively. Key contributors to this letter were Barry Holman, Ron Berteotti, Roger Tomlinson, and Geoff Frank.



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